



# **BUFFALO COMMERCIAL BANK PLC**

## **2016 ANNUAL REPORT**

**Juba, South Sudan**

## **BCB BOARD MEMBERS**

- Dr. Lual Acuek Lual Deng.....Board Chairman**
- Mr. Aquilla Maluth Mam .....Board Member & Chairman  
Audit Committee**
- Mrs. Arek Mou Giir .....Board Member**
- Mr. Ayuen Alier Jongroor .....Board Member & Chairman  
Compensation Committee**
- Mr. Kiir Garang de Kuek .....Board Member & Chairman  
Credit Committee**
- Dr. Priscilla Joseph Kuch .....Board Member**
- Mr. Ayuen Alier Jongroor .....Board Member**
- Mr. Alemu Abera ..... Board Member**
- Mr. Andrew Mayen .....Board Member**

## BCB MANAGEMENT

Mr. Alemu Aberra	Managing Director
Mr. Andrew Mayen Akuak	Deputy Managing Director
Mr. Abreham Mekonnen	Head Finance Department
Mr. Yared Arage	Head IT Department
Mr. Kassahun Mekuria	Chief Internal Auditor

**Legal Advisors:** **South Sudan Advocates  
Legal Consultants and Commissioners in Oaths  
Juba, South Sudan.**

**External Auditors:** **Ernst & Young Certified Public Accountants  
Juba, South Sudan.**

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## **MANAGING DIRECTOR'S MESSAGE**

The 2016 financial year was full of challenges. It was not conducive for smooth banking operations. The general economy of the country was at its lowest ebb because of war and internal conflict that affected business institutions and the people. Displacement of people in the hinterland was reported to be massive. Private business operators were compelled to scale down their activities in every sector of the economy. Lack of foreign currency for import of food and other essential commodities had adversely affected the people as the price of imported goods became expensive. The official foreign exchange rate skyrocketed from SSP 16.62 at the end of 2015 to SSP 83.94 at the end of 2016. Imported goods were beyond the income of the people. Under such circumstance it was difficult to manage the day to day activities both for business institutions and for the public. The inflation surged to the level where it was termed as hyperinflation.

Bank's management attention was geared to get adequate fuel for the generators so that banking service does not stop in the middle of the day rather than thinking about business plan and financial performance at a high level. Prices at restaurants in particular and goods in general increased daily and there lacked price stability.

Though things were difficult, the bank has managed to make a modest profit during the financial year under review. Bank's profit after tax was comparable to that of 2015 similar period result. The total assets of the bank increased by about 56%. Deposit and shareholders' equity increased by 59% and 47% respectively. Total outstanding loan, however, decreased by 36% compared to the previous financial year. The modest financial improvements recorded are induced by managing available resources in a prudent manner and by controlling variable expenses. When one adds the inflationary factor the growth reported may not sound much.

I take this opportunity to thank our customers for their loyalty and for patronizing us and for giving us the opportunity to serve them. I also thank the Board for their guidance and advice during this difficult period. Lastly I would like to give credit and appreciation to our staff members for their dedicated service to keep our customers happy and for being the engine for the good result recorded. We do hope that the future will be bright and better.

**Table I. FINANCIAL SUMMARY**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Net Operating Income	22,342,424	10,429,613	62,338,668	108,461,182
Total Expense	5,777,957	4,645,822	5,911,175	39,886,962
Profit before Tax	16,564,467	5,783,791	56,455,771	63,571,220
Total Assets	131,030,406	103,111,044	285,057,744	446,558,629
Total Equity	40,742,869	42,673,467	90,684,870	133,572,491
Return on Total Assets	12.64%	5.6%	16.8%	10.7%
Return on Equity	40.66%	13.6%	52.9%	35.9%
Customer Deposit	85,421,206	56,687,432	166,970,948	265,622,845
Loans & Advances net of Provision	21,505,009	17,364,606	22,889,141	14,629,732
Loan to Deposit Ratio	5%	30.6%	13.7%	5.5%

***NB: All figures in this report are in SSP unless otherwise expressed***

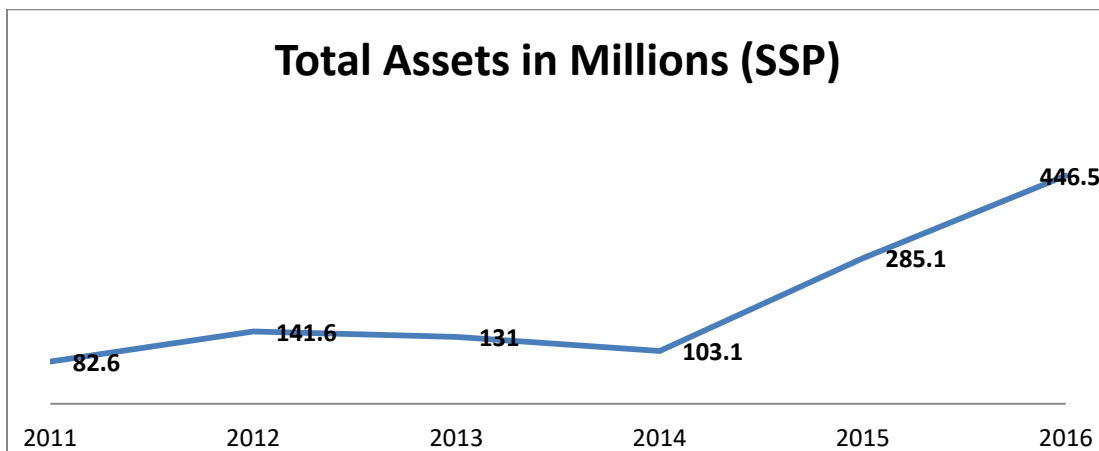
## 1. OPERATIONAL HIGHLIGHTS

The 2016 comprehensive result of Buffalo Commercial Bank can be examined from four major financial result of the balance sheet. These are total assets, total loans (net) outstanding, total deposits and shareholders' equity.

Description	2016	2015	variation	
			SSP	%
Total Assets	446,558,629	285,057,744	161,500,885	56.6
Total Deposits	265,622,845	166,970,948	98,651,897	59
Total Loans (Net)	14,629,732	22,889,141	(8,259,409)	(36)
Shareholders' Equity	133,572,	90,684,870	42,887,621	47

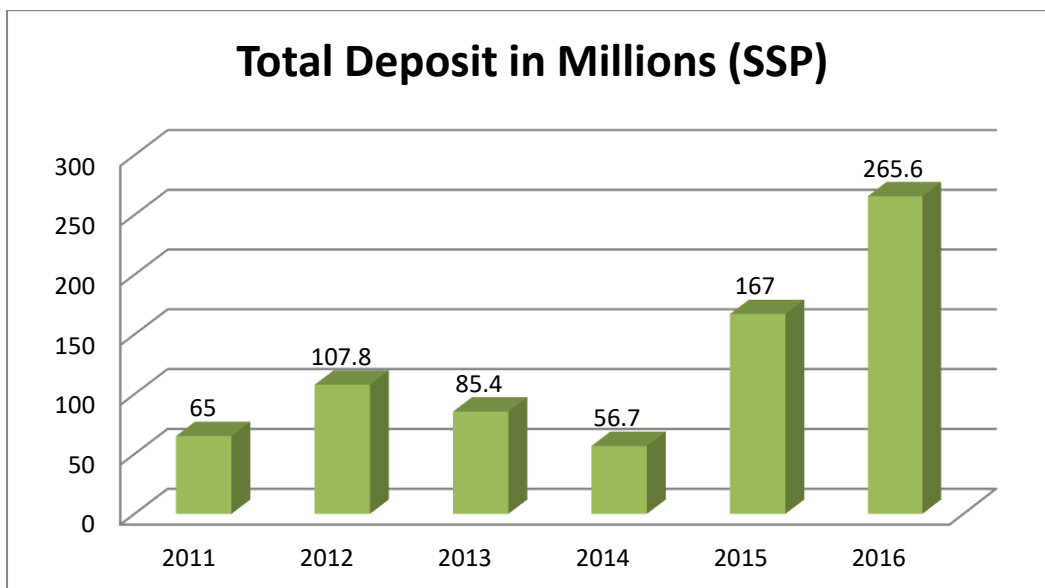
### 2.1 Total Assets

The total assets of the bank at the end of December 2016 reached SSP446, 558,629. This amount when compared with the previous similar period of 2015 showed an increase of SSP161,500,885 or 56.6%. This increase shows that the bank's operational achievement in deposits, loans, investments and level of profitability has enabled an aggregate increase of 56.6% in total assets. Out of the 56.6% total assets increase, 33% of the increase comes from deposits due from other banks. However, there was no such magnitude of increase in deposits due from other banks rather the increase is induced by the depreciation of the SSP against foreign currency holding of the bank with correspondent banks.



## 2.2 Total Deposits

At the end of 2016 total deposit recorded SSP 265,622,845 This amount when compared with 2015 year end figure showed an increase of SSP 98,651,897 or 59%. The quantum of increase could be seen as substantive. When we analyze the areas of total deposit increase, we find that in 2016 current account has increased by SSP 65,196,007 or 44% over that of 2015 level. Similarly Savings account deposit has shown growth by SSP 33,455,890 or 178% when compared with 2015 result. We believe that deposit growth is a good thermometer that indicates the degree of confidence that customers have on the bank, and the steady increase of deposits registered is a manifestation of that confidence.



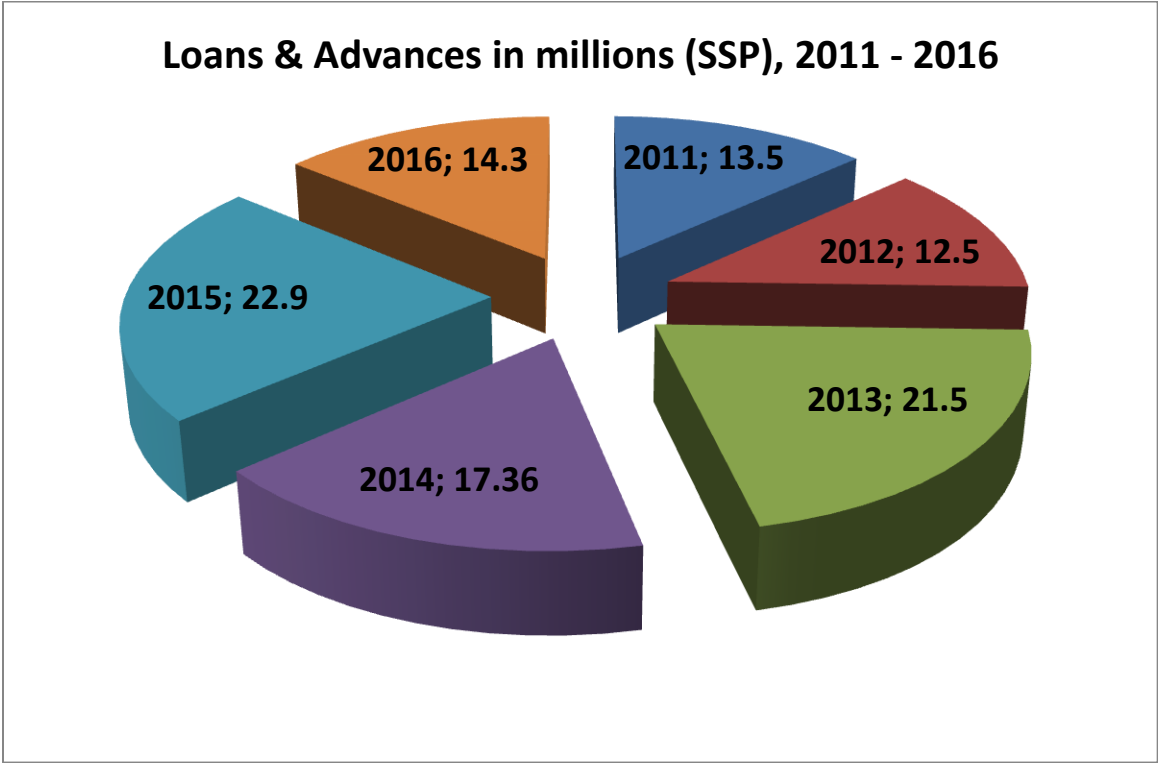
## 2.3 Total Loans and Advances

Total loans and advances (net) at the end of 2016 was SSP 14,629,732. Total net loans and advances at the end of 2015 were 22, 889,141. In 2016, net total loans outstanding at the end of 2016 when compared with similar period of 2015, was less by 8,259,409 or 36%. In 2016 business in every economic sector was completely down and the propensity for bank borrowing was minimal, hence a downward trend in lending.



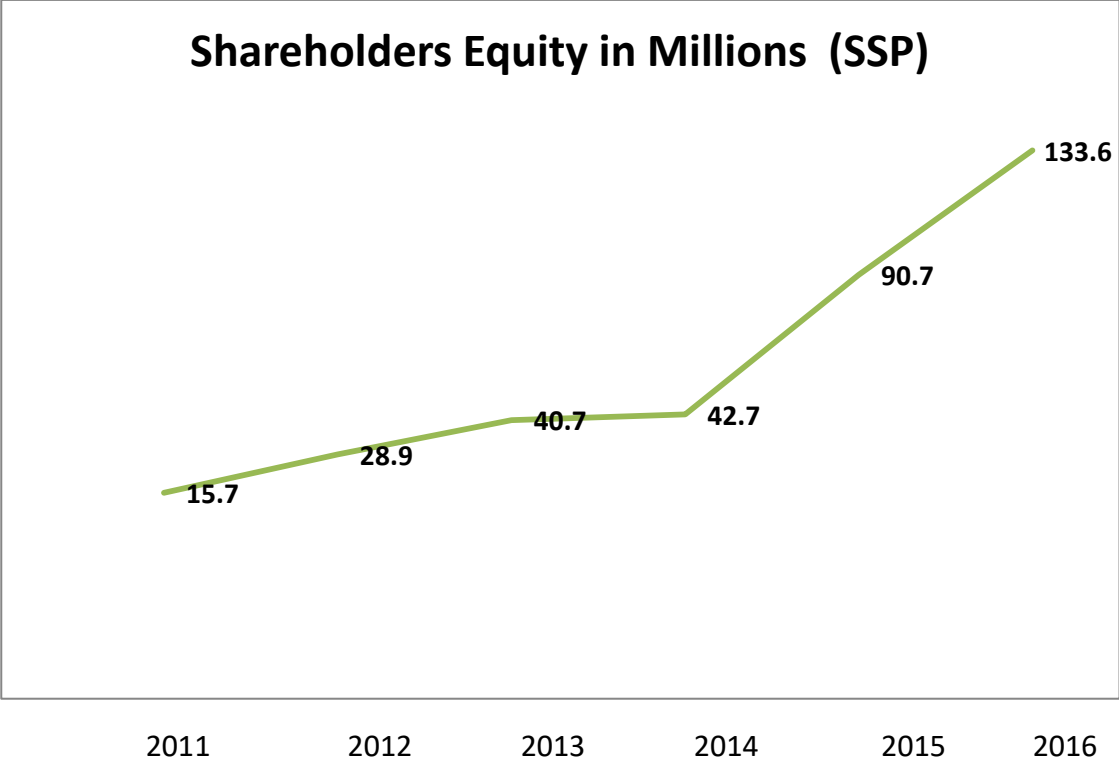
During a business downturn normally collection of loans becomes very difficult. However, the quantum of outstanding loans and advances was reduced by SSP 8.2 million because of good collection effort exerted and cooperation of borrowers to repay their loans. Some loans that were under non-performing category were also paid off. As a result, non-performing loan provision provided decreased by SSP 5,777, 275 or 13% enabling this balance to be reflected in write-back. Still some four borrowers with non-performing loans are unable to repay their loans

The general economic situation of the country was in dire condition during the financial year under review. Retail trade had decreased, hotel and restaurants business had shrunk, and trade finance was so down that there was no meaningful trade finance from the bank side to intermediate import business. Under such condition to be able to collect loans to the magnitude expressed above indicates that the bank's lending was rightly directed at selected customers that value future mutual business relations.



**2.4 Shareholder's Equity**

At the end of 2016, shareholders' equity stood at SSP133,572,491 where as in 2015, it was SSP90,684,870. This means an increase of SSP 42,887,621 was reflected in the financial year under review. The increase is mainly derived from the 2016 financial year net profit booked. The increase in shareholders' equity more or less follows past performance growth rate as shown in the graph below.



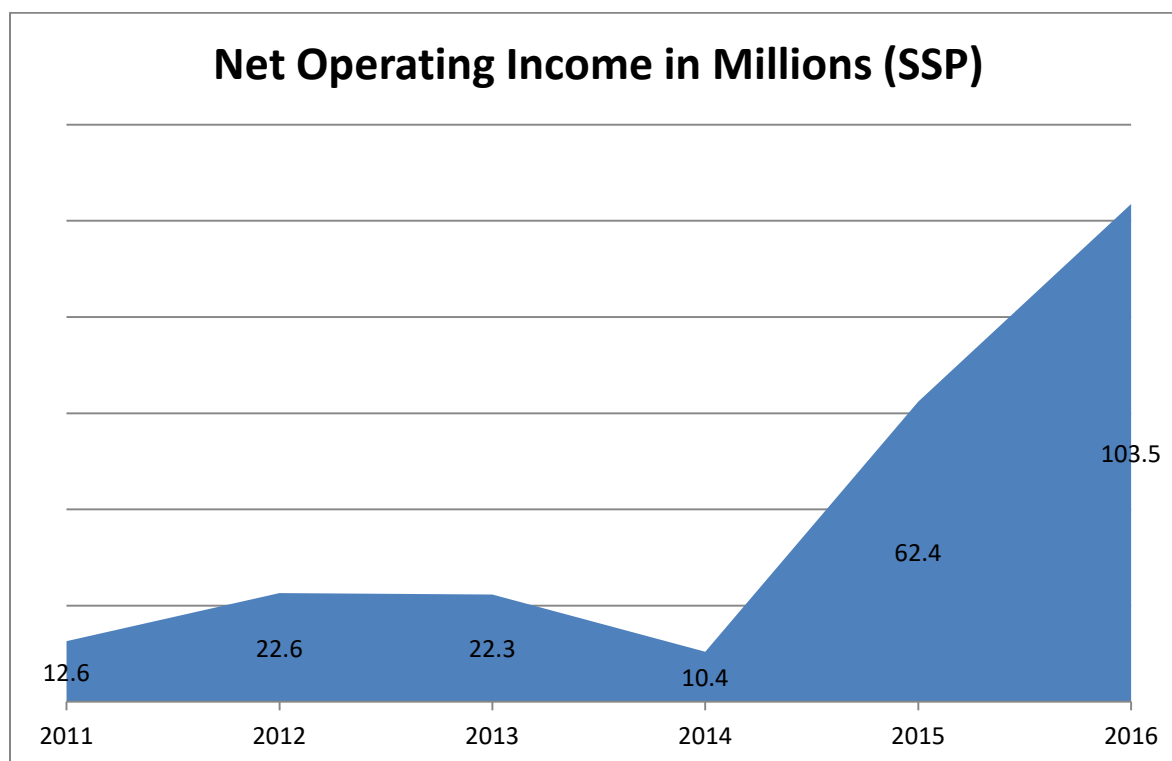
### 3. Highlights of Profit & Loss Statement

	2016	2015	Variation	
			amount	%
Net Operating Income Before Operating Expense	103,458,182	62,338,668	41,122,514	65
Total Operating Expenses	39,886,962	5,911,175	33,975,787	57.4
Profit Before Tax	63,571,220	56,455,771	7,115,449	12.6
Profit After Tax	47,887,621	48,011,403	(123,782)	(0.0025)

#### 3.1 Revenue

As Table III above shows, net operating income at the end of 2016 was SSP 103, 458,182 exceeding the 2015 similar period out come by SSP 41,122,514 or 65%. On the other hand operating expense in 2016 has jumped to SSP 39,886,962 from that of SSP 5,011,175 registered in 2015. The expense increase was SSP33,975,787 or 574%. The reason for such increase is related to price increase in local market on goods and services induced by high inflationary pressure. To keep the well being of the staff, the bank had to raise salary to its staff to the tune of 300% during the 2016 financial year.

In the past years, the bank's main revenue was coming from trade finance where customers were importing food, construction materials, pharmaceuticals, etc. after getting foreign currency allocation from Bank of South Sudan. The foreign currency allocation was stopped, there was no trade finance and the end result was that the bank's income from commission on Letters of Credit dried up. The bank to mitigate such income decrease had to enhance revenue and focus in other incoming generating operations. Result, fees and commission income basket grew by SSP2,555,678 or 190% from 2015 level. Aggressive collection of non-performing loans generated SSP 5,777,275 write back which enhanced income.



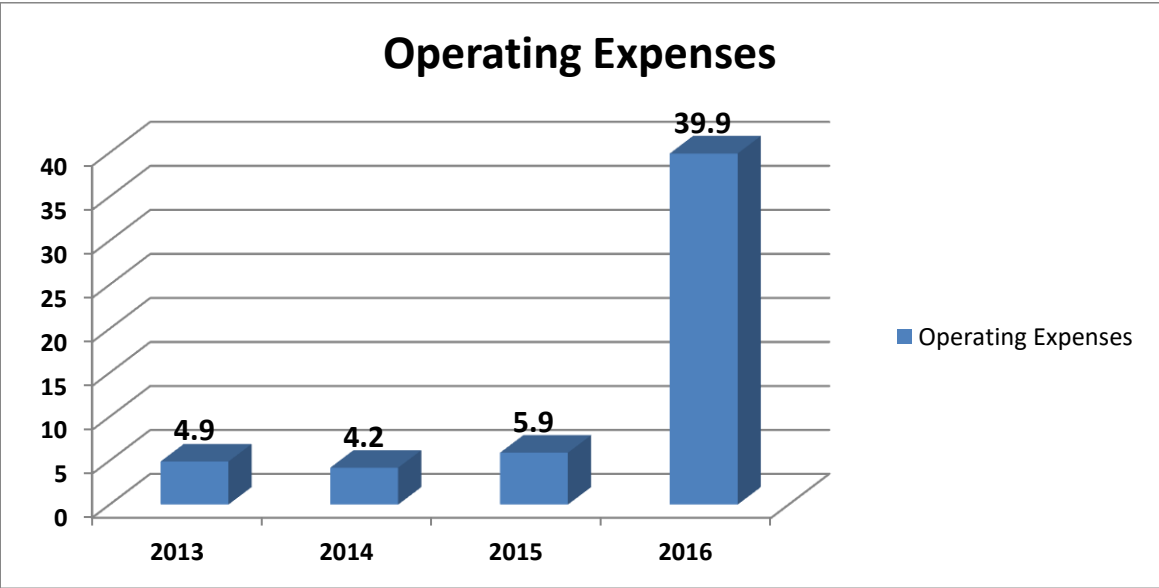
	2016	2015	variation	%
Interest Income	6,726,553	7,278,916	(552,363)	(7.58)
Trading & Other foreign exchange income	69,786,666	44,829,206	24,957,460	55.6
Fees and commissions	34,392,942	11,837,264	22,555,678	190.5

Interest income during the financial year under review was less by 7.6% compared to 2015 result. On the other hand, trading and other foreign exchange income has exceeded the 2015 level by 55.6%; while fees and commission grew by 190%. The outcome gives a good indication that in spite of general economic down turn in the country; the bank has survived the difficult period of 2016 by making every effort to enhance revenue from different sources.

Though general business was down our clients were loyal enough to repay their loans. Even those whose loans were in arrears or non-performing have reduced their indebtedness to a great extent enabling to write back loan losses to the tune of SSP 5.7 million that were fully provisioned.

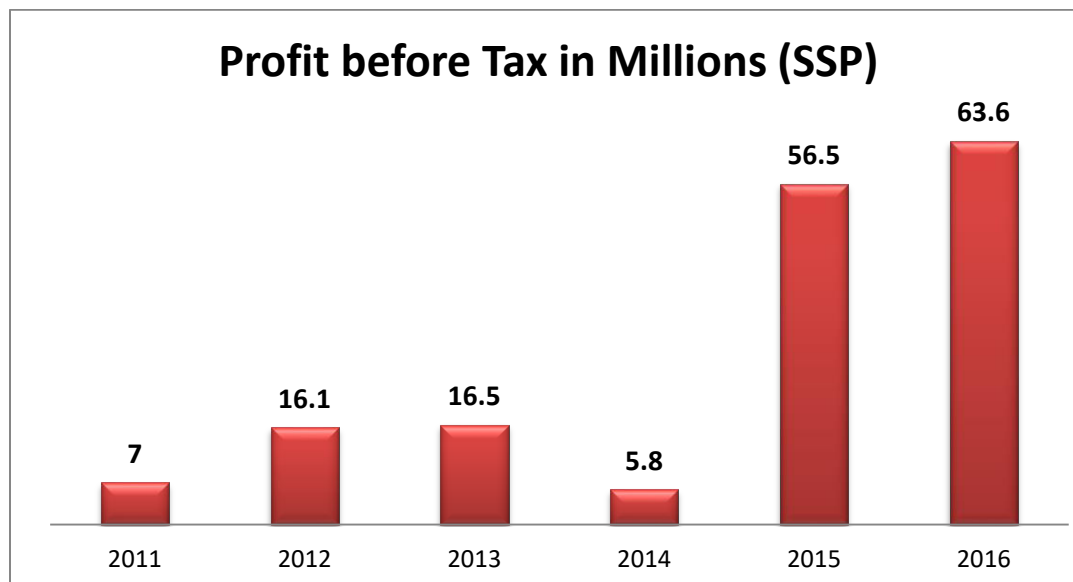
### 3.2 Total Operating Expenses

Total Operating Expense in 2016 grew to unprecedented level of SSP39,886,962. Of this amount the sum of SSP18,094,550 or 45% of the total expense was salaries and benefits paid to staffs. The salary of staff was increased under this sub vote by 300% which exaggerated the expense increase. Another expense sub-vote that had a material effect on expense was a one-time write-off of USD deposit at Byblos Bank, Khartoum that accounted for SSP13,012,843 or 32% of the operating cost. In general, operating expense increased by SSP33,975,787, or 574% compared to similar period of 2015. It is a substantial expense increase. However, seen from the fact that operating income has also increased by SSP52,877,486 or 83% compared to 2015, the final result is positive. It should, however, be pointed out that such big jump both on revenue and expense side is the function of the high inflation that plagued the country.



### 3.3 Profit before Tax

Profit before tax for the financial year under review stood at SSP 63,571,220 which was favorable when compared with SSP 56,455,771 earned in 2015. The profit before tax exceeded that of 2015 result by SSP 7,115,449 or 12.6%.



### 3.4 Profit after Tax

Profit after tax in the financial year under review when compared with 2015 similar period has shown a marginal decrease of SSP123,782 or 0.0025%. The explanation for decrease in profit after tax in 2016 compared to 2015 is mainly due to increase in the government tax rate. In 2015, the bank on profit of SSP 56,455,771 had paid tax to the tune of SSP 8,444,368, however, in 2016 on income of SSP63,571,220 the bank paid SSP 15,683,599 tax which was SSP 7,239,291 or 85.7% above the previous year tax payment record. Other than that the operation result of 2016 has shown improvement over the similar period of the previous year. The most important aspect to note is that in 2016 compared to 2015, net operating income before operating expense and profit before tax have increased by 65.8% and 12.6% respectively. Profitability wise the bank has scored another successful year in spite of multiple problems the country and the business community faced.

#### **4. Liquidity Position of the Bank**

The bank was extremely careful in keeping liquidity level well above the minimum regulatory requirement throughout the financial year. The bank also had participated in purchasing remunerative short-term government treasury bills that generated modest revenue and cushioned the liquidity position. In an attempt to liquidate investment in a subsidiary company, which was a subject of adverse comment from External Auditors, the bank was compelled to trade in the investment for a plot of land. As customers paid off loans and advances, and as the deposit level of the bank grew by 59%, the bank's liquidity was all time high. The loan deposit ratio dropped from 31% in 2015 to 5.5% at the end of 2016. As a result of poor economic condition, new loans were not extended to the level planned. The bank, however, was very comfortable with the liquidity position as it was possible to meet liabilities when due under normal time and under distressed condition.

#### **5. Challenges Faced**

2016 financial year was full of challenges. The SSP exchange rate against USD depreciated from the official rate of SSP16.62 in December 2015 to SSP83.94 at the end of December 2016. As a result price of imported goods skyrocketed further pushing the inflation which was not conducive for business. The conflict in the country continued and some banks had to close branches in different States. Even in Juba some banks have scaled down the number of their branches because of insecurity, low turnover of business and uncertainty of the future. Our borrowers and depositors that have had vibrant business and substantial turnover were running their operation at a skeleton level. With high depreciation of the SSP, dismal functioning of the economy, and associated insecurity in road transport between States, it was impossible to implement financial objectives as desired. Daily food price increase in the market and in restaurants affected the day to day living of our staffs, and the general population. In its entirety 2016 was a challenging year for all.

It is hoped that the peace initiative that is in progress will bring a lasting solution and benefit all those that are internally and externally displaced.

**BUFFALO COMMERCIAL BANK PLC  
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 SSP	2015 SSP
Interest income	6	6,209,351	7,265,505
Interest expense	7	<u>(334,180)</u>	<u>(144,178)</u>
<b>Net interest income</b>		<b>5,875,171</b>	<b>7,121,327</b>
Trading and other foreign exchange income	8	69,786,666	44,829,206
Fees and commission income	9	34,392,942	11,837,264
Other income related expenses	10	<u>(1,593,597)</u>	<u>(449,129)</u>
<b>Net operating income</b>		<b>108,461,182</b>	<b>63,338,668</b>
Impairment losses	11	<u>(5,003,000)</u>	<u>(971,722)</u>
<b>Net operating income before operating expenses</b>		<b>103,458,182</b>	<b>62,366,946</b>
Operating expenses	12	<u>(39,886,962)</u>	<u>(5,911,175)</u>
<b>Profit before tax</b>	13	<b>63,571,220</b>	<b>56,455,771</b>
Income tax expense	14	<u>(15,683,599)</u>	<u>(8,444,368)</u>
<b>Profit for the year</b>		<b><u>47,887,621</u></b>	<b><u>48,011,403</u></b>
Other comprehensive income, net of tax		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<b><u>47,887,621</u></b>	<b><u>48,011,403</u></b>



**BUFFALO COMMERCIAL BANK PLC  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

	Note	2016 SSP	2015 SSP
<b>ASSETS</b>			
Cash and balances with Bank of South Sudan	15	229,297,789	168,764,198
Deposits due from other banks	16	148,152,237	45,263,493
Treasury bills	17	11,595,686	16,396,506
Loans and advances to customers	18	14,629,732	22,889,141
Other assets	19	1,101,444	889,731
Intangible assets	20	10,181	50,448
Property and equipment	21	41,771,561	26,064,227
Investment in associate	22	-	4,740,000
<b>TOTAL ASSETS</b>		<b>446,558,629</b>	<b>285,057,744</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Deferred income tax liability	14 c)	164,713	164,713
Current income tax payable	14(b)	14,473,309	7,956,419
Customer deposits	23	265,622,845	166,970,948
Other liabilities	24	32,725,271	19,280,794
<b>Total liabilities</b>		<b>312,986,138</b>	<b>194,372,874</b>
<b>Equity</b>			
Issued share capital	25	47,078,618	47,078,618
Insurance reserve	26	1,318,000	1,138,000
Foreign exchange fluctuation reserve	27	70,175,873	32,468,252
Retained earnings		10,000,000	5,000,000
Proposed dividends		5,000,000	5,000,000
		133,572,491	90,684,870
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>446,558,629</b>	<b>285,057,744</b>

The financial statements were approved by the Board of Directors on **17 MARCH** 2017 and signed on its behalf by:-

.....  
Director

.....  
Director

.....  
Director

.....  
Secretary

